UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
May 13, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

Commission file number 000-25917

UNITED BANCORPORATION OF ALABAMA, INC.
(Exact name of registrant as specified in its charter)

Delaware	63-0833573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

200 East Nashville Avenue, Atmore, Alabama	36502
(Address of principal executive offices)	(Zip Code)

(251) 446-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes x Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o

Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as define in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 13, 2011.
Class A Common Stock.... 2,325,162 Shares
Class B Common Stock.... -0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.

FORM 10-Q

For the Quarter Ended March 31, 2011

INDEX

Index

PART I - FINANCIAL INFORMATION

United Bancorporation Of Alabama, Inc.

And Subsidiary

Consolidated Balance Sheets

Item 1. Financial Statements

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 15,142,913	$ 18,179,566
Interest bearing deposits in banks	44,695,313	62,786,543
Cash and cash equivalents	59,838,226	80,966,109
Securities available for sale (amortized cost of $74,444,961 and $69,518,789 respectively)	73,539,287	68,808,624
Securities held to maturity (fair values of $14,869,192 and $17,302,864 respectively)	14,894,665	17,262,606
Loans	263,812,762	261,770,815
Less: Allowance for loan losses	5,404,474	5,139,998
Net loans	258,408,288	256,630,817
Premises and equipment, net	16,266,359	16,472,056
Interest receivable	2,004,477	2,192,768
Other assets	23,378,842	24,887,714
Total assets	448,330,144	467,220,694
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	121,011,588	142,681,749
Interest bearing	277,232,369	274,350,971
Total deposits	398,243,957	417,032,720
Advances from Federal Home Loan Bank of Atlanta	1,222,850	1,280,300
Treasury, tax, and loan account	863,074	944,078
Interest payable	375,018	402,953
Accrued expenses and other liabilities	1,734,492	1,731,437
Note payable to Trust	10,310,000	10,310,000
Total liabilities	412,749,391	431,701,488
Stockholders' equity		
Preferred stock of $.01 par value. Authorized 250,000 shares; 10,300 shares, net of discount	10,097,131	10,080,227

Class A common stock, $0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,389,127 shares in 2011 and 2010, respectively	23,891	23,891
Class B common stock, $0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	-	-
Additional paid in capital	6,957,696	6,815,176
Accumulated other comprehensive loss net of tax	(543,410)	(426,105)
Retained earnings	19,558,304	19,721,667
	36,093,612	36,214,856
Less: 63,965 and 86,757 treasury shares, at cost, respectively	512,859	695,650
Total stockholders' equity	35,580,753	35,519,206
Total liabilities and stockholders' equity	$448,330,144	$467,220,694

See Notes to Consolidated Financial Statements

3

Index

United Bancorporation Of Alabama, Inc.
And Subsidiary
Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

	Three Months Ended March 31 2011	Three Months Ended March 31 2010
Interest income:		
Interest and fees on loans	$3,896,988	$4,138,769
Interest on investment securities:		
Taxable	438,129	428,665
Nontaxable	84,646	258,368
Total investment income	522,775	687,033
Other interest income	45,692	32,734
Total interest income	4,465,455	4,858,536
Interest expense:		
Interest on deposits	866,407	1,305,454
Interest on other borrowed funds	69,054	68,373
Total interest expense	935,461	1,373,827
Net interest income	3,529,994	3,484,709
Provision for loan losses	300,000	438,000
Net interest income after provision for loan losses	3,229,994	3,046,709
Noninterest income:		
Service charge on deposits	796,682	826,017
Investment securities gains, net	-	159,465
Mortgage loan and related fees	63,570	54,965
Other	171,088	189,590
Total noninterest income	1,031,340	1,230,037
Noninterest expense:		
Salaries and benefits	2,207,870	2,168,662
Net occupancy expense	483,691	538,476
Other	1,278,364	1,232,347
Total noninterest expense	3,969,925	3,939,485
Earnings before income tax expense (benefits)	291,409	337,261
Income tax expense (benefit)	64,047	(18,542)
Net earnings	227,362	355,803
Preferred stock dividends	51,500	128,750
Accretion on preferred stock discount	16,904	15,961
Net earnings available to common shareholders	$158,958	$211,092

Basic earnings per share available to common shareholders	$0.07	$0.09
Diluted earnings per share available to common shareholders	$0.07	$0.09
Basic weighted average shares outstanding	2,314,019	2,276,192
Diluted weighted average shares outstanding	2,314,019	2,276,192
Cash dividend per share	$-	$-
Statement of Comprehensive Income		
Net earnings	$227,362	$355,803
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising during the period	(117,305)	28,137
Reclassification adjustment for gains included in net earnings.	-	(95,679)
Comprehensive income	$110,057	$288,261

See Notes to Consolidated Financial Statements

4

Index

United Bancorporation Of Alabama, Inc.
and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31 2011	Three Months Ended March 31 2010
Cash flows from operating activities		
Net earnings	$227,362	$355,803
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	300,000	438,000
Depreciation of premises and equipment	235,719	290,569
Net amortization of premium on investment securities available for sale	110,801	57,177
Net amortization of premium on investment securities held to maturity	42,941	13,064
Gain on sales or calls of investment securities available for sale, net	-	(159,465)
Loss (gain) on sale of other real estate	9,501	(23,432)
Stock-based compensation	6,223	6,875
Decrease in interest receivable	188,291	556,617
Decrease in other assets	1,303,581	514,177
Decrease in interest payable	(27,935)	(72,617)
Increase in accrued expenses and other liabilities	3,055	68,651
Net cash provided by operating activities	2,399,539	2,045,419
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale Proceeds from maturities, calls, and principal	2,108,335	8,251,101
repayments of investment securities held to maturity	2,325,000	5,235,000
Proceeds from sales of investment securities available for sale	-	3,991,451
Purchases of investment securities available for sale	(7,145,308)	(15,862,731)
Net (increase) decrease in loans	(2,183,599)	1,033,601
Purchases of premises and equipment, net	(30,022)	(21,629)
Proceeds from sale of other real estate	380,122	150,362
Net cash provided by (used in) investing activities	(4,545,472)	2,777,155
Cash fows from financing activities		
Net increase (decrease) in deposits	(18,788,763)	13,115,200
Cash dividends - preferred stock	(51,500)	(128,750)
Cash dividends - common stock	(3,233)	(3,220)
Repayments of advances from FHLB Atlanta	(57,450)	(57,450)
Increase (decrease) in other borrowed funds	(81,004)	240,858
Net cash provided by (used in) financing activities	(18,981,950)	13,166,638
Net increase (decrease) in cash and cash equivalents	(21,127,883)	17,989,212
Cash and cash equivalents, beginning of period	80,966,109	54,668,111

Cash and cash equivalents, end of period	$59,838,226	$72,657,323
Supplemental disclosures		
Cash paid during the period for:		
Interest	$963,396	$2,036,581
Income taxes	46,642	45,920
Noncash transactions		
Transfer of loans to other real estate through foreclosure	$106,128	$23,000

See Notes to Consolidated Financial Statements

Index

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

NOTE 1 – General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the “Corporation”) and its wholly-owned subsidiary, United Bank (the “Bank”). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010.

NOTE 2 – Net Earnings per Common Share

Basic net earnings per common share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three month periods ended March 31, 2011 and 2010. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three month periods ended March 31, 2011 and 2010 were computed by dividing net earnings by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options and restricted stock grants awarded under the Corporation’s equity incentive plans. There was no dilutive effect because the exercise price of the stock options was greater than the fair value of the stock as of March 31, 2011 and 2010. Presented below is a summary of the components used to calculate diluted earnings per share for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Diluted earnings per share	$ 0.07	$ 0.09
Weighted average common shares outstanding	2,314,019	2,276,192
Dilutive effect of the assumed exercise of stock options	-	-
Total weighted average common shares and potential commonstock outstanding	2,314,019	2,276,192

Index

NOTE 3 – Investment Securities

The amortized cost and fair value of investment securities available for sale at March 31, 2011 and December 31, 2010 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2011				
U.S. Treasury securities	$20,181,014	$135,645	$(157,752)	$20,158,907
U.S. government sponsored agencies	39,462,908	186,654	(634,508)	39,015,054
State and political subdivisions	9,740,976	76,592	(359,115)	9,458,453
Mortgage-backed securities	5,049,910	-	(150,092)	4,899,818
Equity securities	10,153	-	(3,098)	7,055
	$74,444,961	$398,891	$(1,304,565)	$73,539,287
December 31, 2010				
U.S. Treasury securities	$19,207,231	$157,497	$(135,666)	19,229,062
U.S. government sponsored agencies	35,391,603	273,654	(497,372)	35,167,885
State and political subdivisions	9,744,841	69,416	(447,406)	9,366,851
Mortgage-backed securities	5,164,961	-	(126,710)	5,038,251
Equity securities	10,153	-	(3,578)	6,575
	$69,518,789	$500,567	$(1,210,732)	$68,808,624

Index

The amortized cost and fair value of investment securities held to maturity at March 31, 2011 and December 31, 2010 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2011				
U.S. government sponsored agencies	$14,894,665	$242,500	$(267,973)	$14,869,192
	$14,894,665	$242,500	$(267,973)	$14,869,192
December 31, 2010				
U.S. government sponsored agencies	$17,262,606	$290,222	$(249,964)	$17,302,864
	$17,262,606	$290,222	$(249,964)	$17,302,864

Index

Those investment securities classified as available for sale which have an unrealized loss position at March 31, 2011 and December 31, 2010 are detailed below:

March 31, 2011

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury securities	$3,929,063	$(157,752)	$-	$-	$3,929,063	$(157,752)
U.S. government sponsored agencies	21,624,096	(634,508)	-	-	21,624,096	(634,508)
State and political subdivisions	4,302,836	(222,167)	657,374	(136,948)	4,960,210	(359,115)
Mortgage-backed securities	4,899,818	(150,092)	-	-	4,899,818	(150,092)
Equity securities	-	-	7,055	(3,098)	7,055	(3,098)
Total temporarily impaired securities	$34,755,813	$(1,164,519)	$664,429	$(140,046)	$35,420,242	$(1,304,565)

December 31, 2010

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury securities	$3,954,531	$(135,666)	$-	$-	$3,954,531	$(135,666)
U.S. government sponsored agencies	17,681,269	(497,372)	-	-	17,681,269	(497,372)
State and political subdivdisions	4,537,904	(289,375)	636,830	(158,031)	5,174,734	(447,406)
Mortgage-backed securities	5,038,251	(126,710)	-	-	5,038,251	(126,710)
Equity securities	-	-	6,575	(3,578)	6,575	(3,578)
Total temporarily impaired securities	$31,211,955	$(1,049,123)	$643,405	$(161,609)	$31,855,360	$(1,210,732)

Index

Those investment securities classified as held to maturity which have an unrealized loss position at March 31, 2011 and December 31, 2010 are detailed below.

March 31, 2011

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies	$7,586,537	$(267,973)	$-	$-	$7,586,537	$(267,973)
Total temporarily impaired securities	$7,586,537	$(267,973)	$-	$-	$7,586,537	$(267,973)

December 31, 2010

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies	$7,640,567	$(249,964)	$-	$-	$7,640,567	$(249,964)
Total temporarily impaired securities	$7,640,567	$(249,964)	$-	$-	$7,640,567	$(249,964)

The unrealized losses at both March 31, 2011 and December 31, 2010, were attributable to changes in market interest rates since the securities were purchased. The Corporation systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, (3) structure of the security and (4) the Corporation's intent to sell the security or whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in market value.

U.S. Treasury securities. The unrealized losses on the two investments in U.S. Treasury obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

U.S. Government sponsored agencies. The unrealized losses on the twenty investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Index

States and political subdivisions. The unrealized losses associated with nineteen securities issued by state and political subdivisions are primarily driven by wider credit spreads and changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Mortgage-backed securities. The unrealized losses on the Corporation's investment in two mortgage-backed securities were caused by interest rate increases. As the mortgaged-backed securities are obligations of GNMA and a direct obligation of the U.S. Government, the decline in market value is attributable to changes in interest rates and not credit quality. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Equity securities. The Corporation's investment in equity securities consists of a single investment in the common stock of a government-sponsored enterprise. Because of the Corporation's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider this investment to be other-than-temporarily impaired at March 31, 2011.

Index

The following table presents the amortized costs, fair value and weighted-average yield of securities available for sale by contractual maturity at March 31, 2011. In some cases the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal income tax rate.

	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized Cost					
U.S. Treasury securities	$5,010,732	$11,083,468	$4,086,814	$-	$20,181,014
U.S. government sponsored agencies	-	23,601,215	15,861,693	-	39,462,908
State and political subdivisions	149,886	743,746	2,779,105	6,068,239	9,740,976
Mortgage-backed securities	-	-	-	5,049,910	5,049,910
Equity securities	10,153	-	-	-	10,153
Total	$5,170,771	$35,428,429	$22,727,612	$11,118,149	$74,444,961
Fair Value					
U.S. Treasury securities	$5,033,125	$11,196,719	$3,929,063	$-	$20,158,907
U.S. government sponsored agencies	-	23,396,971	15,618,083	-	39,015,054
State and political subdivisions	151,752	769,175	2,745,012	5,792,514	9,458,453
Mortgage-backed securities	-	-	-	4,899,818	4,899,818
Equity securities	7,055	-	-	-	7,055
Total	$5,191,932	$35,362,865	$22,292,158	$10,692,332	$73,539,287
Total Average Yield	1.03 %	1.82 %	2.80 %	3.85 %	2.37 %

The following table presents the amortized costs, fair value and weighted-average yield of securities held to maturity by contractual maturity at March 31, 2011. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal income tax rate.

	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized Cost					
U.S. government sponsored agencies	$999,871	$7,039,173	$6,855,621	$-	$14,894,665
Total	$999,871	$7,039,173	$6,855,621	$-	$14,894,665
Fair Value					
U.S. government sponsored agencies	$1,013,245	$7,257,882	$6,598,065	$-	$14,869,192
Total	$1,013,245	$7,257,882	$6,598,065	$-	$14,869,192
Total Average Yield	2.02 %	2.76 %	2.11 %	0.00 %	2.41 %

Index

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31	
	2011	2010
Gross gains realized	$-	$159,465
Gross losses realized	-	-
Net gain (loss) realized	$-	$159,465

There were no sales of securities held to maturity for the three months ended March 31, 2011 or 2010.

Investment securities available for sale with fair values of $28,884,035 and $28,143,732 at March 31, 2011 and December 31, 2010, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Investment securities held to maturity with amortized costs of $13,895,775 and $15,424,330 at March 31, 2011 and December 31, 2010, respectively, were pledged to secure federal funds lines and public and trust deposits as required by law and for other purposes.

Restricted equity securities (included in Other assets in the Consolidated Balance Sheets) consist of the following as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Federal Home Loan Bank stock	$1,046,700	$1,046,700
First National Bankers' Bank stock	825,000	825,000
	$1,871,700	$1,871,700

Index

NOTE 4 – Loans and Allowance for Loan Losses

At March 31, 2011 and December 31, 2010, the composition of the loan portfolio was as follows:

	March 31, 2011	December 31, 2010
Real estate:		
Construction and land loans	$36,641,511	$36,825,855
Farmland	30,498,665	30,269,876
1-4 family residential mortgage	56,821,244	58,342,993
Multifamily	3,207,270	3,082,066
Commercial	73,043,151	73,800,481
Agriculture	19,948,566	12,633,816
Commercial	26,153,401	29,413,147
Consumer	13,463,828	13,597,817
States and political subdivisions	3,978,154	3,735,144
Other loans	56,972	69,620
Total	$263,812,762	$261,770,815

The following table summarizes the activity in the allowance for loan losses for the three month periods ended (in thousands):

	March 31, 2011	2010
Balance at beginning of year	5,140	7,436
Provision charged to expense	300	438
Loans charged off	(121)	(474)
Recoveries	85	52
Balance at end of period	5,404	7,452

At March 31, 2011 and 2010, the amounts of nonaccrual loans were $17,280,000 and $19,606,000, respectively.

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officer and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Index

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by United Bank certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well defined source of repayment.

Grade 3: Attractive Credit Risk - The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

Grade 6: Monitor - This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion and they are fully leveraged. If liquidation were to take place there could be a minimal loss and thus an analysis should be made to determine if a specific reserve is needed.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure.

Grade 8: Doubtful – A loss is highly likely and there probably will be a default. There is no ability to refinance. At this point collection effort should be in full process. Loans in this category will be reserved at a specific amount.

Index

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with a Grade of 6, and Substandard / Doubtful include loans with Grades 7 and 8.

The following tables summarize the credit risk profile of the loan portfolio by internally assigned grades as of March 31, 2011 (in thousands).

March 31, 2011

	Pass	Special Mention	Substandard / Doubtful	Total
Real estate:				
Construction and land loans	$20,348	$3,838	$12,456	$36,642
Farmland	19,513	5,910	5,076	30,499
1-4 family residential mortgage	51,133	4,032	1,656	56,821
Multifamily	3,207	-	-	3,207
Commercial	51,670	12,863	8,510	73,043
Agriculture	15,117	2,945	1,887	19,949
Commercial	20,446	3,441	2,266	26,153
Consumer	13,408	36	20	13,464
States and political subdivisions	3,978	-	-	3,978
Other loans	57	-	-	57
Total	$198,877	$33,065	$31,871	$263,813

Approximately $533,000 of the $31,871,000 identified as Substandard / Doubtful above were considered Doubtful as of March 31, 2011.

Index

The following table summarizes the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2010 (in thousands).

	Pass	Special Mention	Substandard / Doubtful	Total
Real estate:				
Construction and land loans	$19,306	$4,250	$13,270	$36,826
Farmland	18,438	6,352	5,480	30,270
1-4 family residential mortgage	52,544	3,538	2,261	58,343
Multifamily	3,082	-	-	3,082
Commercial	53,704	12,026	8,070	73,800
Agriculture	8,807	2,110	1,717	12,634
Commercial	21,853	3,223	4,337	29,413
Consumer	13,335	65	198	13,598
States and political subdivisions	3,735	-	-	3,735
Other loans	65	-	5	70
Total	$194,869	$31,564	$35,338	$261,771

Approximately $615,000 of the $35,338,000 identified as Substandard / Doubtful above are considered Doubtful as of December 31, 2010.

Index

The following table details the Bank's non-accrual loans as of March 31, 2011 and December 31, 2010 (in thousands).

	March 31, 2011	December 31, 2010
Non-accrual loans:		
Real estate:		
Construction, land development, and other land loans	$8,648	$ 8,966
Farmland	851	1,210
1-4 family residential mortgage	1,013	801
Multifamily	-	-
Commercial	3,189	2,803
Agriculture	1,481	1,603
Commercial	2,096	2,162
Consumer	2	-
States and political subdivisions	-	-
Other loans	-	-
Total nonaccrual loans	$17,280	$ 17,545

The following table details the Bank's allowance for loan loss as of March 31, 2011 and December 31, 2010 (in thousands).

	March 31, 2011	December 31, 2010
Allowance for loan losses:		
Real estate:		
Construction, land development, and other land loans	$2,292	$ 2,176
Farmland	114	119
1-4 family residential mortgage	636	576
Multifamily	8	7
Commercial	1,189	1,100
Agriculture	260	201
Commercial	742	772
Consumer	152	178
States and political subdivisions	10	9
Other loans	1	2
Total allowance for loan losses	$5,404	$ 5,140

Index

Changes in the allowance for loan losses for the periods ended March 31, 2011 and 2010 are as follows (in thousands):

	March 31, 2011	March 31, 2010
Average amount of loans outstanding, net	$259,411	$281,692
Reserve for loan losses:		
Beginning balance	$5,140	$7,436
Loans charged off:		
Real estate:		
Construction and land loans	(37)	(10)
Farmland	-	-
1-4 family residential mortgage	(41)	(148)
Multifamily	-	-
Commercial	(9)	-
Agriculture	(17)	-
Commercial	(1)	(239)
Consumer	(16)	(76)
States and political subdivisions	-	-
Other loans	-	(1)
Total charged off	(121)	(474)
Recoveries:		
Real estate:		
Construction and land loans	2	2
Farmland	-	-
1-4 family residential mortgage	3	39
Multifamily	-	-
Commercial	9	-
Agriculture	4	5
Commercial	60	1
Consumer	7	5
States and political subdivisions	-	-
Other loans	-	-
Total recoveries	85	52
Loans charged off, net	(36)	(422)
Additions to the allowance charged to operations	300	438
Ending balance	$5,404	$7,452
Net charge offs to average loans	0.01%	0.15%

19

Index

A loan is considered impaired when, based on current information and events; it is probable that the Bank will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables detail the Bank's impaired loans, by portfolio class, as of March 31, 2011 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no specific allowance reserved				
Real estate:				
Construction and land loans	$1,976	$3,076	$-	$-
Farmland	687	687	-	-
1-4 family residential mortgage	716	716	-	-
Multifamily	-	-	-	-
Commercial	414	414	-	5
Agriculture	1,351	1,351	-	-
Commercial	1,059	3,070	-	-
Consumer	-	-	-	1
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$6,203	$9,314	$-	$6

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With specific allowance reserved				
Real estate:				
Construction and land loans	$7,663	$8,166	$1,267	$17
Farmland	148	148	31	-
1-4 family residential mortgage	812	812	159	17
Multifamily	-	-	-	-
Commercial	3,073	3,073	663	-
Agriculture	128	128	65	-
Commercial	1,109	1,109	484	2
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$12,933	$13,436	$2,669	$36

Index

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
Total Impaired Loans				
Real estate:				
Construction and land loans	$9,639	$11,242	$1,267	$17
Farmland	835	835	31	-
1-4 family residential mortgage	1,528	1,528	159	17
Multifamily	-	-	-	-
Commercial	3,487	3,487	663	5
Agriculture	1,479	1,479	65	-
Commercial	2,168	4,179	484	2
Consumer	-	-	-	1
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$19,136	$22,750	$2,669	$42

Index

The following tables detail the Bank's impaired loans, by portfolio class, as of December 31, 2010 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no specific allowance reserved				
Real estate:				
Construction and land loans	$2,748	$3,948	$-	$2
Farmland	3,485	3,485	-	55
1-4 family residential mortgage	1,320	1,320	-	42
Multifamily	-	-	-	-
Commercial	256	256	-	11
Agriculture	1,338	1,338	-	45
Commercial	1,157	3,168	-	12
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$10,304	$13,515	$-	$167

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With specific allowance reserved				
Real estate:				
Construction and land loans	$6,813	$7,315	$1,029	$95
Farmland	150	150	33	5
1-4 family residential mortgage	223	223	129	9
Multifamily	-	-	-	-
Commercial	2,871	2,871	565	61
Agriculture	252	252	74	14
Commercial	987	987	445	8
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$11,296	$11,798	$2,275	$192

Index

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
Total Impaired Loans				
Real estate:				
Construction and land loans	$9,561	$11,263	$1,029	$97
Farmland	3,635	3,635	33	60
1-4 family residential mortgage	1,543	1,543	129	51
Multifamily	-	-	-	-
Commercial	3,127	3,127	565	72
Agriculture	1,590	1,590	74	59
Commercial	2,144	4,155	445	20
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$21,600	$25,313	$2,275	$359

The impaired loan amounts above included approximately $218,000 and $383,000 of troubled debt restructured loans as of March 31, 2011 and December 31, 2010, respectively.

Of the $21,600,000 in impaired loans as of December 31, 2010, approximately $52,000 was charged off against the allowance, $78,000 was foreclosed and recorded as ORE, and $3,163,000 was repaid in the first quarter of 2011. The remainder was not considered impaired in the 2010 analysis.

The average amount of impaired loans for the quarter ended March 31, 2011 was $20,368,000. If impaired loans had been current throughout their terms, interest income would have been increased by $212,776 as of the first quarter of 2011. There was $41,500 of interest income recognized from impaired loans for the quarter ended March 31, 2011.

Index

The following table summarizes the allowance for loan losses (ALL) related to impaired loans and the impaired loan balances by portfolio segment at March 31, 2011 (in thousands):

	ALL Ending Balance	Individually Evaluated	Collectively Evaluated
Real estate:			
Construction and land loans	$ 1,267	$ 9,639	$ -
Farmland	31	835	-
1-4 family residential mortgage	160	1,528	-
Multifamily	-	-	-
Commercial	663	3,487	-
Agriculture	65	1,479	-
Commercial	483	2,168	-
Consumer	-	-	-
States and political subdivisions	-	-	-
Other loans	-	-	-
Total	$ 2,669	$ 19,136	$ -

The following table summarizes the allowance for loan losses (ALL) related to impaired loans and the impaired loan balances by portfolio segment at December 31, 2010 (in thousands):

	ALL Ending Balance	Individually Evaluated	Collectively Evaluated
Real estate:			
Construction and land loans	$ 1,029	$ 9,561	$ -
Farmland	33	3,635	-
1-4 family residential mortgage	129	1,543	-
Multifamily	-	-	-
Commercial	565	3,127	-
Agriculture	74	1,590	-
Commercial	445	2,144	-
Consumer	-	-	-
States and political subdivisions	-	-	-
Other loans	-	-	-
Total	$ 2,275	$ 21,600	$ -

Index

The table below provides an analysis of past due status as of March 31, 2011 (in thousands):

	Past Due Loans (Accruing Interest)						Total
	30-59 days	60-89 days	90+ days	Total	Nonaccrual	Current	Loans
Real estate:							
Construction and land loans	$ 582	$ 538	$ 7	$ 1,127	$ 8,648	$ 26,867	$ 36,642
Farmland	292	85	11	388	851	29,260	30,499
1-4 family residential mortgage	135	32	-	167	1,013	55,641	56,821
Multifamily	-	-	-	-	-	3,207	3,207
Commercial	1,071	232	-	1,303	3,189	68,551	73,043
Agriculture	14	-	-	14	1,481	18,454	19,949
Commercial	49	-	31	80	2,096	23,977	26,153
Consumer	102	43	7	152	2	13,310	13,464
States and political subdivisions	-	-	-	-	-	3,978	3,978
Other loans	-	-	-	-	-	57	57
Totals	$ 2,245	$ 930	$ 56	$ 3,231	$ 17,280	$ 243,302	$ 263,813

The table below provides an analysis of past due status as of December 31, 2010 (in thousands):

	Past Due Loans (Accruing Interest						Total
	30-59 days	60-89 days	90+ days	Total	Nonaccrual	Current	Loans
Real estate:							
Construction and land loans	$ 860	$ 106	$ -	$ 966	$ 8,966	$ 26,894	$ 36,826
Farmland	2,527	18	519	3,064	1,210	25,996	30,270
1-4 family residential mortgage	155	51	-	206	801	57,336	58,343
Multifamily	-	-	-	-	-	3,082	3,082
Commercial	880	610	-	1,490	2,803	69,507	73,800
Agriculture	-	-	-	-	1,603	11,031	12,634
Commercial	119	-	-	119	2,162	27,132	29,413
Consumer	100	15	19	134	-	13,464	13,598
States and political subdivisions	-	-	-	-	-	3,735	3,735
Other loans	1	-	-	1	-	69	70
Totals	$ 4,642	$ 800	$ 538	$ 5,980	$ 17,545	$ 238,246	$ 261,771

NOTE 5 – Operating Segments

The Corporation operates in only one segment – commercial banking.

25

Index

NOTE 6 – Stock Based Compensation

At March 31, 2011, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan are described more fully in Note 13 to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010. The Corporation recognizes compensation expense for all stock based payments based upon the grant date fair value.

Stock Options

1998 Stock Option Plan

The following table represents stock option activity for the three months ended March 31, 2011:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	22,486	$16.15	2.2
Granted	—	—	
Surrendered	—	—	
Exercised	—	—	
Options outstanding, end of period	22,486	16.15	1.9
Exercisable, end of period	22,486	16.15	1.9

There was no intrinsic value of option shares outstanding and exercisable for the periods ended March 31, 2011 and 2010, respectively.

The 1998 Stock Option Plan terminated pursuant to its terms effective December 22, 1998 and no additional awards will be made under such plan.

Index

2007 Equity Incentive Plan

The following table represents stock option activity for the three months ended March 31, 2011:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	4,000	$14.85	8.4
Granted	—	—	
Surrendered	—	—	
Exercised	—	—	
Options outstanding, end of period	4,000	14.85	8.2
Exercisable, end of period	1,600	14.85	8.2

As of March 31, 2011, there was $7,761 of total unrecognized compensation costs related to the nonvested share based compensation arrangements granted under the 1998 and 2007 Plans. That cost is expected to be recognized over a period of approximately 2 years.

Restricted Stock

The following table represents restricted stock activity under the 2007 Equity Incentive Plan for the three months ended March 31, 2011:

	Restricted stock activity	Weighted average fair value
Shares granted at beginning of period	5,515	16.65
Granted	—	—
Surrendered	—	—
Vested	—	—
Shares granted at end of period	5,515	16.65

Shares available for future stock grants to employees and directors under the 2007 Equity Incentive Plan of United Bancorporation of Alabama, Inc. were 293,978 at March 31, 2011.

As of March 31, 2011, there was $42,662 of total unrecognized compensation costs related to the restricted stock grants issued under the 2007 Plan. That cost is expected to be recognized over a period of approximately 3 years.

NOTE 7 – Fair Value of Financial Instruments

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Index

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Corporation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Index

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

		Fair Value Measurements at March 31, 2011 Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$73,539,287	$24,171,522	$49,367,765	$ -

		Fair Value Measurements at March 31, 2010 Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$71,822,559	$13,244,965	$58,577,594	$ -

Assets Measured at Fair Value on a Non-recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

Index

Other Real Estate (Foreclosed Assets)

Other real estate is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

The following table presents the assets carried on the balance sheet by asset type and by level within the FASB ASC 820 valuation hierarchy (as described above) as of March 31, 2011 and December 31, 2010, for which a nonrecurring change in fair value has been recorded during the periods ended March 31, 2011 and December 31, 2010, respectively.

	Carrying Value at March 31, 2011				Three months ended March 31, 2011
	Total	Level 1	Level 2	Level 3	Total losses
Impaired loans (1)	$12,413,089	$-	$-	$12,413,089	$(444,994)
Other real estate	9,778,394	-	-	9,778,394	(9,501)

(1) Losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan losses

Index

	Carrying Value at December 31, 2010			
	Total	Level 1	Level 2	Level3
Impaired loans	$11,367,697	$-	$-	$11,367,697
Other real estate	10,163,992	-	-	10,163,992

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good–faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

(a) Cash and Short-term Investments

Fair value approximates the carrying value of such assets.

(b) Investment Securities and Other Securities

The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

(c) Loans

The fair value of loans is calculated using discounted cash flows and excludes lease–financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions.

(d) Bank Owned Life Insurance

The fair value of bank owned life insurance approximates its carrying value.

(e) Deposits

The fair value of deposits with no stated maturity, such as non–interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

Index

The fair value estimates in the table below do not include the benefit that results from the low–cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

(f) FHLB, Other Borrowed Funds and Subordinated Debt

The fair value of the Corporation's other borrowed funds and subordinated debt approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

(g) Accrued Interest

The fair value of accrued interest receivable and payable approximates their carrying value.

(h)Commitments to Extend Credit and Standby Letters of Credit

There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value.

The carrying value and estimated fair value of the Corporation's financial instruments at March 31, 2011 and December 31, 2010 are as follows (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:	(Dollars in Thousands)			
Cash and short–term investments	$ 59,838	$ 59,838	$ 80,966	$ 80,966
Investment securities	88,434	88,408	86,071	86,111
Loans, net of the allowance for loan losses	258,408	267,117	256,631	264,155
Bank owned life insurance	2,872	2,872	2,845	2,845
Correspondent bank stock	1,872	1,872	1,872	1,872
Accrued interest receivable	2,004	2,004	2,193	2,193
Financial liabilities:				
Deposits	398,244	401,613	417,033	420,546
Other borrowed funds	863	863	944	944
FHLB advances	1,223	1,458	1,280	1,534
Subordinated Debt	10,310	10,310	10,310	10,310
Accrued interest payable	375	375	403	403

Index

NOTE 8 – Recently Issued Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This guidance requires disclosures regarding loans and the allowance for loan losses that are disaggregated by portfolio segment and class of financing receivable. Required enhancements to current disclosures include a roll-forward of the allowance for loans losses by portfolio segment, with the ending balance broken out by basis of impairment method, as well as the recorded investment in the respective loans. Nonaccrual and impaired loans by class must also be shown. Disclosure requirements also include: (1) credit quality indicators by class, (2) aging of past due loans by class, (3) troubled debt restructurings ("TDRs") by class and their effect on the allowance for loan losses, (4) defaults on TDRs by class and their effect on the allowance for loan losses, and (5) significant purchases and sales of loans disaggregated by portfolio segment. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010, for end of period disclosures. Activity-related disclosures are required for interim and annual reporting periods beginning on or after December 15, 2010. Although this guidance required the Corporation to make additional disclosures in its financial statements, adoption of this guidance did not have any effect on the Corporation's financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-02, which provides guidance on determining whether a restructuring of a receivable meets the criteria to be considered a TDR. The new guidance is required to be adopted for the first interim or annual reporting period beginning after June 15, 2011, and is to be applied retrospectively to the beginning of the annual reporting period. Early adoption is permitted. The Corporation intends to adopt the provisions of this ASU when required, and is evaluating its potential impact on the Corporation's consolidated financial statements.

Index

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

When used or incorporated by reference herein, the words "anticipate", "estimate", "expect", "project", "target", "goal" similar expressions, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risk, uncertainties, and assumptions including those set forth herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected or projected. These forward-looking statements speak only as of the date they are made. The Corporation expressly disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein to reflect any change in the Corporation's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Our significant accounting policies are described in the notes to the consolidated financial statements at December 31, 2010 as filed in our annual report on Form 10-K. Certain accounting policies require management to make significant estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and results of operations for the reporting periods.

Results of Operations

The following financial review is presented to provide an analysis of the results of operations of the Corporation and the Bank for the three months ended March 31, 2011 and 2010, compared. This review should be used in conjunction with the condensed consolidated financial statements included in the Form 10-Q.

Three Months Ended March 31, 2011 and 2010, Compared

Summary

Net income available to common shareholders was $158,958 for the first quarter of 2011 after the effects of dividends and accretion for preferred shares of $68,404. The decrease of $52,134, or 24.7%, as compared to the first quarter of 2010 is primarily the result of lower realized gains on the sale of investment securities and a decline in revenue derived from service charges on deposit accounts. Additionally, total assets, cash and equivalents and deposits declined from December 31, 2010. This was the result of a large customer using approximately $30 million held in noninterest-bearing deposits to pay down loans at other lenders. The depositor continues to maintain significant deposits with the Corporation's banking subsidiary.

Index

Net Interest Income

Net interest income was $3,529,994 during the first quarter of 2011, an increase of $45,285 or 1.3% from the $3,484,709 recorded for the same period in 2010. The net interest income, on a tax equivalent basis, as a percentage of average earning assets was 3.46% for the first quarter of 2011 as compared to 3.51% for the same period in 2010.

Total interest income decreased $393,081 (8.1%) in the first quarter of 2011 compared to the same period in 2010. The reduction in interest income is primarily the result of the lower average balance of loans. Loans averaged $259.4 million in the 2011 quarter versus $281.7 million in the 2010 quarter. Additionally, more funds were directed to short term, liquid assets with low yields to increase liquidity. This change in the mix of earning assets resulted in a tax equivalent yield of 4.36%, which was 0.49% lower than the 4.85% earned in the 2010 quarter. The yield received on loans was slightly higher at 5.82% for the 2011 period as compared to 5.73% for the same period in 2010. Although nonaccrual loans declined from the 2010 period, they remained elevated and served to reduce the amount of interest income earned. The level of nonaccruals at March 31, 2011 was $17,280,000 compared to $19,606,000 at March 31, 2010, a decline of $2,326,000.

The decline in interest income was more than offset by a reduction in interest expense of $438,366 or 31.9%. Average interest-bearing liabilities decreased by $10.9 million for the first quarter of 2011, compared to the same period in 2010, as time deposits were reduced in response to the reduction in loans. Additionally, the rate paid on interest-bearing liabilities was lower at 1.31% in 2011 as compared to 1.86% in 2010, a reduction of 0.55%.

Provision for Loan Losses

The provision for loan losses totaled $300,000 for the first quarter of 2011 as compared to $438,000 for the same period in 2010. For further discussion of this item see Allowance for Loan Losses below.

Noninterest Income

Total noninterest income decreased $198,697 or 16.2% for the first quarter of 2011. No gains from the sale of securities were realized during the first quarter of 2011 compared with the $159,465 realized in the first quarter of 2010. Excluding these gains noninterest income declined by $39,232 or 3.7%. Revenue from service charges and fees on deposit accounts decreased by $29,335 (3.6%); fees earned from the origination of mortgage loans increased by $8,605 (15.7%); fees received from the sale of insurance and securities was lower by $24,624 (41.3%); and fees from other services, such as check cashing fees, earnings on cash surrender value of life insurance and miscellaneous services were higher by approximately $6,000.

Index

Noninterest Expense

Total noninterest expense increased $30,440, or 0.8%, in the first quarter of 2011 compared to the same quarter of 2010. Salaries and benefits expense was higher by $39,208. However, the Corporation did not provide for general salary increases or bonuses in the first quarter of 2011. Some necessary positions were added and the salary component increased by $13,470 or 0.8%. The cost of health insurance increased by $20,085 or 13.1%. Occupancy expenses were lower by $54,786 or 10.2%, primarily due to lower depreciation expense, in the amount of $53,124, as plant and equipment replacements were done on an "as needed basis" or for items that had a possible negative impact on customer service. All other noninterest expense was higher by $46,017 (3.7%). This increase was driven by an increase in FDIC insurance premiums of $54,480. Other expenses representing items over which the Corporation can exercise some degree of control showed small changes both higher and lower.

Income Tax

Earnings before taxes for the first quarter of 2011 were $291,409 as compared to $337,261 in the first quarter of 2010, a decrease of $45,852 or 13.6%. In the first quarter of 2011, the Corporation recorded an income tax expense of $64,047 as opposed to the benefit recorded in the first quarter of 2010 of $18,542. The increase was caused by a reduction in nontaxable interest income from investment securities. The Corporation's holdings of tax free municipal bonds were reduced in late 2010. Investments in this category totaled $8,207,475 at March 31, 2011 as opposed to $24,190,779 at March 31, 2010. The transactions are more fully described in the Corporation's report on Form 10-Q for the quarter ending September 30, 2010.

Index

Financial Condition and Liquidity

Total assets on March 31, 2011 were $448,330,144, a decrease of approximately $18,890,000, or 4.0%, from December 31, 2010. Total deposits decreased by $18.8 million or 4.5% while loans increased by $2.0 million. Total equity (common and preferred) decreased by $121,244 to $36.1 million during the quarter.

The Corporation continues to take steps to maintain a strong liquidity position that is designed to provide sufficient availability of funds to meet planned needs. This liquidity position has been held at a higher than historical level because of the continued economic uncertainty. The ratio of total loans to deposits on March 31, 2011 was 66.2% as compared to 62.8% on December 31, 2010. As economic conditions improve and the market for bank funding strengthens, the continued need for the increased level of liquidity will be reviewed.

Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2011 were $59,838,226 which is a decrease of $21,127,883, or 26.1%, from December 31, 2010. The decrease is the result of the large depositor's repayment of debt discussed in Summary above and the reallocation of funds from short term, liquid assets to investment securities - available for sale.

Investment Securities – Available for Sale

Investment securities available for sale were $73,539,287, an increase of $4,730,000, or 6.9% during the first quarter of 2011. The increase is the result of reinvesting proceeds from maturing and called securities classified as held to maturity into this category and the reallocation of liquid assets into securities.

Investment Securities – Held to Maturity

Investment securities held to maturity decreased by approximately $2,368,000, or 13.7%, to $14,894,665. Securities designated as held to maturity are not liquid or subject to sale. The Corporation reviews the limits and target levels on this category regularly. As a result of its review, during the first quarter of 2011, proceeds from maturing or called securities were reinvested in the available for sale category to assure that the Corporation continues to have the financial flexibility needed in the current environment.

Loans

Gross loans at March 31, 2011 were $263,812,762, an increase of approximately $2,042,000, or 0.8%, from December 31, 2010. The increase is concentrated in agricultural related loans for farmland and production. The Bank continues to seek loans to quality borrowers.

Index

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's opinion, is appropriate to provide for estimated losses in the portfolio at the balance sheet date. Factors considered in determining the adequacy of the allowance include historical loan loss experience, the amount and trend of past due loans, loans classified from the most recent regulatory examinations and internal reviews, general economic conditions, the effect of lending policies and effectiveness of management and the current portfolio mix including concentrations. The amount charged to the provision is that amount deemed necessary to maintain the allowance for loan losses at a level indicative of the associated risk, as determined by management, of the current portfolio.

The allowance for loan losses consists of two portions: the impaired portion and the non-impaired portion. The impaired portion is based on identified problem loans and is determined based on an assessment of credit risk related to those loans. Specific loss estimate amounts are included in the allowance based on an evaluation of the individual credits. Any loan categorized loss is charged off in the period which the loan is so categorized.

The non-impaired portion of the allowance is for probable inherent losses which exist as of the evaluation date even though they may not have been identified by the more objective processes for the impaired portion of the allowance. This is due to the risk of error and inherent imprecision in the process. This portion of the allowance is particularly subjective and requires judgments based upon qualitative factors, which do not lend themselves to exact mathematical calculations. Some of the factors considered are changes in credit concentrations, loan mix, historical loss experience, experience of loan management, effects of lending policies and general economic environment in the Corporation's markets.

The Corporation continues with the methodology introduced in the fourth quarter of 2010 in which the Corporation began to segment the loan portfolio by type of loan for analysis and to compute the needed reserve on non-impaired loans based on historical charge off performance for each segment. This was done to more accurately reflect performance of individual portfolio segments; as well was, to obtain more precise information regarding these segments. Also, this methodology allows the Corporation to better target loan growth by concentrating on those segments with lower loss histories and aid in identification of areas or segments requiring more attention. The effect on the calculated level of the reserve will be in direct proportion to the loss rate and volume of those sectors with loss rate histories either higher or lower than the average loss rate for the portfolio as a whole.

At March 31, 2011, the ratio of reserves to total loans was 2.05% compared to the ratio at December 31, 2010 of 1.96%. The amount of reserve allocated to specific loans at March 31, 2011 was $2,668,665 versus the level at December 31, 2010 of $2,275,207.

The Corporation has procedures in place to identify and deal with problem loans and potential problem loans. It is the goal of the Corporation to identify any problems, to develop and execute strategies to deal with those identified and establish reserves to deal with identified and historic shortfalls. Although reserves may be considered appropriate at a point in time, future events may change the ability of a borrower to pay or the underlying value of collateral. The Corporation will continue to monitor closely the condition of the portfolio and, in the current, uncertain economy, continue with its program to strengthen the level of reserves.

Index

Premises and Equipment

Premises and equipment decreased $205,697, or 1.2%, during the first quarter of 2011. The reduction in this account is due to the assets being depreciated with little additional capital spending to counter the reduction.

Deposits

Total deposits decreased approximately $18,789,000, or 4.5%, at March 31, 2011 from December 31, 2010, including a decrease of approximately $21,670,000 in non-interest bearing deposits and an increase of approximately $2,881,000 in interest bearing deposits. The large customer discussed in Summary above represented a decrease of $30,000,000 in non-interest bearing deposits.

Liquidity

One of the Corporation's goals is to provide adequate funds to meet changes in loan demand or any potential increase in the normal level of deposit withdrawals. This goal is accomplished primarily by generating cash from operating activities and maintaining sufficient short-term assets. These sources, coupled with a stable deposit base, allow the Corporation to fund earning assets and maintain the availability of funds. Management believes that the Corporation's traditional sources of maturing loans and investment securities, cash from operating activities and a strong base of core deposits are adequate to meet the Corporation's liquidity needs for normal operations. To provide additional liquidity, the Corporation has historically utilized market based sources such as short-term financing through the purchase of federal funds, and a borrowing relationship with the Federal Home Loan Bank. In the current economy, these sources are not as reliable as in more normal times. The Corporation has chosen to maintain on balance sheet sources of liquidity such as deposits at the Federal Reserve, federal funds sold and liquid, short term investments at higher than historical levels to assure an adequate source of liquid funding. This strategy has depressed the net interest margin as these short-term, highly liquid assets have lower yields than loans or longer term, less liquid assets. Should the Corporation's traditional sources of liquidity be constrained, forcing the Corporation to pursue avenues of funding not typically used, the Corporation's net interest margin could be further impacted negatively. The Corporation's bank subsidiary has an Asset Liability Management Committee, which has as its primary objective the maintenance of specific funding and investment strategies to achieve short-term and long-term financial goals. The Corporation's liquidity at March 31, 2011 is considered appropriate by management.

Index

Capital Adequacy

Total stockholders' equity on March 31, 2011, was $35,580,753, an increase of $61,547, from December 31, 2010. This increase is comprised of current period earnings of $227,362 and is offset by the decrease of accumulated other comprehensive income net of tax of $117,305; dividends and amortization of $68,404 related to the U.S. Treasury's Community Development Capital Initiative as described more fully in Note 9 to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010; and the recognition of $6,223 of compensation expense related to previous years' grants of stock options and restricted stock.

In February 2011, a 1% stock dividend was transferred from treasury stock to shareholders of record as of January 31, 2011.

The table below sets forth various capital ratios for the Corporation and the Bank. Under current regulatory guidelines, debt associated with trust preferred securities qualifies for Tier 1 capital treatment. At March 31, 2011, trust preferred securities included in Tier 1 capital totaled $10 million.

Federal and State of Alabama Regulators have established quantitative measures to ensure capital adequacy requiring the Corporation and its Bank to maintain minimum capital levels. The primary target capital ratio is the maintenance of the Tier I Leverage Ratio by the Bank at or above 8.50% of average assets during any quarter. In the first quarter of 2011, the Bank reported in its "Call Report" a Tier I Leverage Ratio of 8.69% of average assets. Management believes as of March 31, 2011 that the Corporation and its Bank meet all capital adequacy requirements to which they are subject. The payment of dividends has a direct impact on capital adequacy and is subject to approval by the Federal and State of Alabama regulators.

Index

As of March 31, 2011, the most recent notification from the appropriate regulatory agencies categorized the Bank as “adequately capitalized” under the applicable regulatory framework. There are no conditions or events since that notification that management believes have changed the Bank’s category.

Information regarding risk-based capital and leverage ratios of the Corporation and the Bank are set forth in the table below:

	March 31, 2011		Adequately Capitalized Treatment		Well Capitalized Treatment	
United Bancorporation of Alabama, Inc.						
Total risk-based capital	15.68	%	8.00	%	10.00	%
Tier 1 risk-based capital	13.84		4.00		6.00	
Leverage Ratio	8.61		4.00		5.00	
United Bank						
Total risk-based capital	15.17	%	8.00	%	10.00	%
Tier 1 risk-based capital	13.91		4.00		6.00	
Leverage ratio	8.69		4.00		5.00	

Based on management’s projections, existing regulatory capital should be sufficient to satisfy capital requirements in the foreseeable future for existing operations. Although the Bank has suspended further immediate expansion plans, continued growth into new markets may require the Corporation to further access external funding sources. There can be no assurance that such funding sources will be available to the Corporation.

Off Balance Sheet items

The Bank is a party to financial obligations with off-balance sheet risk in the normal course of business. The financial obligations include commitments to extend credit and standby letters of credit issued to customers.

The following table sets forth the off-balance sheet risk of the Bank as of the end of the period.

		March 31, 2011
Commitments to extend credit	$	46,811,583
Standby letters of credit		1,406,922

Index

Item 4. Controls and Procedures

Based on evaluation of the Corporation’s disclosure controls and procedures (as such term is defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this quarterly report, the principal executive officer and the principal financial officer of the Corporation have concluded that as of such date the Corporation’s disclosure controls and procedures were effective to ensure that information the Corporation is required to disclose in its filings under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and to ensure that information required to be disclosed by the Corporation in the reports that it files under the Exchange Act is accumulated and communicated to the Corporation’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Corporation’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Index

PART II -- OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 6. Exhibits

(a) Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Index

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED BANCORPORATION OF ALABAMA, INC.

Date: May 13, 2011

Robert R. Jones, III	/s/ Robert R. Jones, III President and Chief Executive Officer
Allen O. Jones, Jr.	/s/ Allen O. Jones, Jr. Senior Vice President and Chief Financial Officer

Index

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002